Bank of Cyprus Group

Announcement

Group Financial Results for the year ended 31 December 2010 and Profit estimate for 2011

- Targets for 2010 achieved
  - Profit after tax of €306 mn
  - Healthy liquidity maintained with a loans to deposits ratio of 84%

- Strong capital position to be strengthened further with the issue of Convertible Enhanced Capital Securities
  - Total capital adequacy ratio of 11,9%
  - Pro forma total capital adequacy ratio and Tier 1 ratio as of 31 December 2010 of 14,0% and 12,7% respectively

- Proposed final dividend of €0,03 per share
  - €0,09 total dividend in cash for 2010

- Profit after tax for 2011 estimated to be at around a similar level as 2010

Nicosia, 28 February 2011

Founded in 1899, the Bank of Cyprus Group is the leading Cypriot banking and financial services group. In addition to retail and commercial banking, the Group's activities include finance, factoring, investment banking, brokerage, fund management, life and general insurance. The Group currently operates through a total of 595 branches, of which 211 operate in Russia, 185 in Greece, 143 in Cyprus, 27 in Ukraine, 12 in Romania, 12 in Australia, 4 in the United Kingdom and 1 in the Channel Islands. Bank of Cyprus also has 9 representative offices in Russia, Romania, Ukraine, Canada and South Africa. The Bank of Cyprus Group employs 12.009 staff worldwide.

At 31 December 2010, the Group's Total Assets amounted to €42,64 bn and the Shareholders' Funds were €2,74 bn. The Bank of Cyprus shares are listed on the Cyprus and Athens Stock Exchanges. Additional information can be found on the Group's website www.bankofcyprus.com.

A. Summary of Results

The Group achieved its targets set at the beginning of 2010 by maintaining high levels of profitability and positive contribution to profit from all the markets in which it operates. In a particularly negative environment in the main European markets in which it operates, the Group, focusing on its targets, achieved a targeted business expansion, an increased recurring profitability and strengthened further its already robust balance sheet.

The Group's **total income** recorded a significant increase of 13% reaching €1.450 mn for 2010, demonstrating the Group's ability to achieve increasing recurring income even in adverse economic conditions. The Group's **profit before provisions** for 2010 reached €725 mn and recorded an annual increase of 18%. Despite the significant increase in profit before provisions, the Group's conservative policy regarding provisions resulted in profit after tax for 2010 declining by 2% and reaching €306 mn, with the Group being profitable in all the markets in which it operates.

At the same time, the Group enjoys strong capital adequacy (**Tier 1 ratio** 11,0%) and healthy liquidity (**loans to deposits ratio** 84%). The Group's capital adequacy is expected to be further strengthened with the forthcoming issue of Convertible Enhanced Capital Securities of €1.342 mn, with the **pro-forma Tier 1 ratio** at 31 December 2010 reaching 12,7%, based on the assumption that all 'Eligible Securities' (as defined in the terms of the issue) (€818 mn) are exchanged for the new Convertible Enhanced Capital Securities.

Despite its deterioration, loan quality remains at adequate levels (**non-performing loans** ratio of 7,3%) given the challenging macro environment.

The 2010 performance and the solid balance sheet footings reaffirm the effectiveness of the Group's chosen business model. Amid the negative economic environment, the Group continues its selective business expansion in the main markets in which it operates, strengthening its balance sheet and achieving increased recurring profitability. At the same time, the successful share capital increase of €345 mn in October 2010 offers the Group further strategic flexibility to capitalise on its liquidity by seizing profitable growth opportunities across its various markets.

The Board of Directors of the Bank, taking into consideration the Group's financial results and the target of maintaining a strong capital position, has decided to propose at the Annual General Meeting of its shareholders a reduced final dividend of €0,03 per share in cash. The total of the proposed final dividend in cash, including the interim dividend of €0,06 per share paid in November 2010 (totalling €46,6 mn), amounts to €0,09 per share, totalling €73,5 mn.

The main financial highlights for 2010 are set out in the table below:

Table 1

€ mn	2010	2009	Change
Profit before provisions	725	612	+18%
Profit after tax	**306**	**313**	**-2%**
Earnings per share	**40,5 cent**	**45,0 cent**	**-4,5 cent**
Return on Equity	11,9%	14,0%	-2,1 p.p.*
Cost / Income	50,0%	52,4%	-2,4 p.p.*
Non - performing loans ratio	7,3%	5,6%	+1,7 p.p.*
Total Loans (€ bn)	28,9	26,5	+9%
Total Deposits (€ bn)	33,0	28,6	+15%
Loans to Deposits[1]	84,1%	89,7%	-5,6 p.p.*

* p.p. = percentage points, 1 percentage point = 1%

- **Significant increase in total income:** The Group's total income recorded a significant annual increase of 13% reaching €1.450 mn for 2010, demonstrating the Group's ability to achieve increased recurring income even in adverse economic conditions.

- **Significant increase in profit before provisions**: Profit before provisions for 2010 reached €725 mn recording an increase of 18% compared to 2009 (€612 mn).

- **Improvement of interest margin**: The Group's net interest margin reached 2,66% for 2010 which is a significant increase of 27 basis points compared to 2,39% for 2009.

- **Profit after tax reached** €306 mn for 2010, with positive contribution to profit from all the markets in which the Group operates.

- **Healthy liquidity position**: Loans to deposits ratio of 84,1%.

- **High return on equity:** The return on equity (11,9%) was maintained at relatively high levels in a particularly challenging macro environment. The lower return on equity compared to 2009 is mainly attributable to the capital increase in October 2010.

- **Solid capital position**: The capital adequacy ratio reached 11,9% at 31 December 2010 with the tier 1 ratio and the core tier 1 ratio reaching 11,0% and 8,1% respectively. Taking into consideration the forthcoming issue of Convertible Enhanced Capital Securities of €1.342 mn, the pro-forma capital adequacy ratio and tier 1 ratio at 31 December 2010 amount to 14,0% and 12,7% respectively.

- **Improved efficiency:** The cost to income ratio has improved to 50,0% for 2010 from 52,4% for 2009.

- **Significant volume growth**: At 31 December 2010 Group loans and deposits recorded an annual increase of 9% and 15% respectively.

- **Effective credit risk management**: The non-performing loans ratio reached 7,3% at 31 December 2010 compared to 6,7% at 30 September 2010 and 5,6% at 31 December 2009.

[1] Net loans to deposits

Despite an increase of 60 basis points in the NPL ratio in the fourth quarter 2010, the provisions coverage ratio (provisions as % of non-performing loans) remained at a satisfactory level of 55% at 31 December 2010. The coverage ratio including tangible collateral amounted to 118% (106% taking into account tangible collateral at forced sale value).

B. 2011 Profit estimate

The Group continues its business expansion and remains strong despite the continued negative environment in the main European markets in which it operates. The consistency, flexibility, prudent risk management, healthy liquidity and strong capital position ensure that the Group will be able to achieve future targets and take advantage of future challenges.

The **strategic priorities of the Group for the year** 2011 focus on maintaining its healthy liquidity position and strong capital adequacy, on achieving satisfactory profitability with improved efficiency and cost containment, and on effectively managing risks. In addition, the Group aims to further enhance its presence in the new markets in which it operates, which have strong growth potential, thereby creating long term diversification of income, profitability and risks.

The Group remains true to its policy of communicating with the investing community and providing a profit target even in periods of great uncertainty, as we experience currently. The Group expects that the profit before provisions and the profit before tax for 2011 will be higher relative to 2010, while the profit after tax for 2011 is estimated to be at around similar levels as 2010, with a positive contribution from all the markets in which it operates. Regarding the operations in Russia, the Group expects the consistent substantial business expansion and improvement in profitability to continue, resulting in a higher contribution to Group profitability.

C. Analysis of Results for 2010

C.1 Geographical analysis of profitability

The **Group** achieved satisfactory profitability for 2010, with increased recurring income and positive contribution to profit from all the markets in which it operates. **Profit before provisions** for 2010 reached €725 mn, recording an annual increase of 18% compared to 2009. Despite the significant increase in pre-provision profitability, the Group's conservative policy of strengthening its balance sheet through increased provisions resulted in profit after tax for 2010 reaching €306 mn, compared to €313 mn for 2009.

In **Cyprus**, profit before provisions reached €437 mn which is an increase of 16% compared to 2009. However, the Group, having taken into consideration the deteriorating of the economic environment, significantly increased its charge for impairment of loans, resulting in profit after tax for 2010 of €256 mn which is 9% lower than 2009.

In **Greece**, profit before provisions for 2010 reached €194 mn, recording an increase of 34% compared to 2009. Despite the increased provision charge (€184 mn for 2010 compared to €120 mn for 2009), profit after tax reached €11 mn versus €3 mn for 2009.

In **Russia** profit before provisions for 2010 reached €46 mn, an increase of 12% compared with 2009 with profit after tax reaching €16 mn compared to €7 mn for 2009 (annual increase of 116%).

Profit after tax for **other countries** (Australia, United Kingdom, Ukraine and Romania) reached €23 mn recording an increase of 12% compared to 2009.

C.2 Net Interest Income and Net Interest Margin

By adjusting its pricing policy for the new economic environment, the Group increased its net interest income for 2010. **Net interest income** for 2010 reached €1.041 mn, recording a significant annual increase of 23% compared to 2009, demonstrating the Group's ability to achieve increased recurring income despite continuing competition and the adverse economic environment.

The **net interest margin** of the Group continued to rise and reached 2,72% for the fourth quarter 2010 compared to 2,65% for the third quarter 2010 and 2,51% for the fourth quarter 2009. The net interest margin for 2010 reached 2,66% recording a significant increase of 27 basis points compared to 2,39% for 2009.

C.3 Income from fees and commissions, foreign exchange income and net gains from financial instruments

Net fee and commission income amounted to €231 mn for 2010 compared to €243 mn for 2009.

Foreign exchange income and net gains from financial instruments for 2010 amounted to €110 mn versus €116 mn for 2009.

C.4 Expenses

Total expenses for 2010 amounted to €725 mn, recording an annual increase of 8% compared to €674 mn for 2009. Despite the increase in operating expenses, the significant increase in Group income led to a noteworthy reduction of the **cost to income ratio** to 50,0%, noting an improvement of 2,4 percentage points compared to the previous year.

The cost to income ratio in Cyprus for 2010 was 44,0%, noting an improvement of 2,0 percentage points versus 2009. In Greece the relevant ratio improved to 50,8% which is a significant reduction of 6,6 percentage points compared to the previous year.

D. Credit Risk Management

The quality of the Group's loan portfolio remains at adequate levels taking into consideration the continuing economic crisis. At 31 December 2010, the ratio of loans in arrears for longer than three months which are not fully covered by tangible collateral ("non-performing loans") over the total loans of the Group (non-performing loans ratio) was 7,3%, compared to 6,7% at 30 September 2010 and 5,6% at 31 December 2009.

At 31 December 2010, the relevant ratio for Cyprus was 7,0% (30 September 2010: 6,6%) and for Greece was 8,3% (30 September 2010: 7,0%).

The Group, taking into consideration the macro-economic environment and the deterioration of its loan portfolio, increased the charge for impairment of loans, which reached 1,35% of total loans on an annual basis for 2010 (year 2009: 0,96%).

Due to increased provisions, the provision coverage ratio (provisions/NPLs) was 55% at 31 December 2010. The remaining balance of NPLs is fully covered by tangible collateral. The coverage ratio including tangible collateral amounted to 118% (106% taking into account tangible collateral at forced sale value).

E. Balance Sheet Analysis

E.1 Group Loans

At 31 December 2010 Group loans amounted to €28,9 bn recording an annual increase of 9%. Despite the market conditions prevailing in the main markets in which the Group operates and the prudent credit policy applied by the Group, the increase in loans reaffirms that the Group, based on its strong balance sheet footings and primarily on its healthy liquidity, continues its selective expansion by taking advantage of opportunities that arise.

At 31 December 2010, the Group's total loans in Russia reached €1,9 bn recording an annual increase of 34%.

Table 2

Analysis of Loans by Geographic Sector at 31.12.2010			
	€ mn	**annual +%**	**Contribution**
Cyprus	13.883	9%	48%
Greece	10.154	4%	35%
Russia	1.887	34%	7%
Other countries	2.962	15%	10%
Group	**28.886**	**9%**	**100%**

E.1.1 Loans by Customer Sector

The breakdown of the loan portfolio by customer sector for the Group and for the two main markets in which the Group operates, Cyprus and Greece, is shown in the table below:

Table 3

Analysis of Loans by Customer Sector						
	Group		Cyprus		Greece	
	€ mn	% Portfolio	€ mn	% portfolio	€ mn	% portfolio
Corporate[2]	11.915	41%	6.412	46%	3.222	32%
Small and Medium-sized Enterprises (SMEs)[2]	7.685	27%	2.346	17%	3.723	37%
Retail						
o Housing	5.573	19%	3.472	25%	1.753	17%
o Other	3.713	13%	1.653	12%	1.456	14%
Total	28.886	100%	13.883	100%	10.154	100%

E.2 Group Deposits

The Group's total deposits at 31 December 2010 reached €33,0 bn recording an annual increase of 15%. The Cyprus operations noted a significant increase of deposits of 34% yoy which is mainly derived from the International Business Sector, where a continuous increase in the number of customers further enhances the Group's leading market share.

The Group's healthy liquidity position, with a loans to deposits ratio of 84% and its minimal reliance on wholesale funding (deposits to total assets ratio of 77% at 31 December 2010) are a strong

[2] Corporate clients are enterprises that have total loans above €4 mn and turnover of above €2 mn for Cyprus and turnover of above €30 mn for Greece
SMEs are enterprises that have total loans less that €4 mn and turnover less that €2 mn for Cyprus and turnover less than €30 mn or total loans less than €10 mn for Greece

competitive advantage given the adverse conditions prevailing in the international money markets and the intense competition on deposits in the main markets in which the Group operates.

Table 4

Analysis of Deposits by Geographic Sector at 31.12.2010				
	€ mn	**annual +/-%**	**Contribution**	**Loans to Deposits ratio**[3]
Cyprus	19.695	+34%	60%	68%
Greece	9.791	-10%	30%	99%
Russia	1.116	+9%	3%	160%
Other countries	2.351	+22%	7%	123%
Group	**32.953**	**+15%**	**100%**	**84%**

E.3 Capital Base

At 31 December 2010, the Group's shareholder funds amounted to €2,74 bn. The Group's total capital adequacy ratio based on Basel II requirements reached 11,9% with the core tier 1 ratio at 8,1% and the tier 1 ratio at 11,0%.

In October 2010, the Group successfully completed the increase of its share capital through a rights issue of €345 mn, further strengthening its capital base.

As already announced, the Group has decided to issue Convertible Enhanced Capital Securities amounting to €1.342 mn to further strengthen its capital base. The forthcoming issue will strengthen the Group's high quality capital adequacy, with the pro-forma capital adequacy ratio and the Tier 1 ratio at 31 December 2010 reaching 14,0% and 12,7% respectively, based on the assumption that all 'Eligible Securities' (€818 mn) are exchanged for the new Convertible Enhanced Capital Securities. The 'Eligible Securities' of the Bank are specifically (i) Convertible Bonds 2013/18 (ii) Convertible Capital Securities and (iii) Capital Securities 12/2007, of an equal nominal value, which have priority after the Eligible Shareholders (as defined in the terms of the issue) and before any other applicants.

[3] Net loans to deposits

Table 5

Analysis of Group Results and Other Financial Information						
€ mn	2010	2009	+%	4Q10	3Q10	+%
Net interest income	1.041	848	+23%	273	271	+1%
Net fee and commission income	231	243	-5%	61	59	+3%
Foreign exchange income and net gains from financial instruments	110	116	-5%	55	17	+221%
Insurance income net of insurance claims	59	63	-6%	14	15	-11%
Other income	9	16	-47%	4	0	
Total income	**1.450**	**1.286**	**+13%**	**407**	**362**	**+12%**
Personnel expenses	430	414	+4%	107	106	+1%
Other operating expenses	295	260	+13%	87	72	+20%
Total expenses	**725**	**674**	**+8%**	**194**	**178**	**+8%**
Profit before provisions	**725**	**612**	**+18%**	**213**	**184**	**+16%**
Provisions for impairment of loans and advances	375	248	+51%	145	83	+74%
Share of (loss)/ profit of associates	(2)	1		0	0	
Profit before tax	**348**	**365**	**-5%**	**68**	**101**	**-33%**
Taxation	46	43	+6%	9	14	-34%
Non - controlling interests (loss/(profit))	4	(9)		(1)	2	
Profit after tax	**306**	**313**	**-2%**	**58**	**85**	**-31%**
Number of staff	**12.009**	**12.127**	**-118**	**12.009**	**11.929**	**+80**
Number of branches	**595**	**569**	**+26**	**595**	**561**	**+34**
Net interest margin (NIM)	**2,66%**	**2,39%**	**+27 b.p.***	**2,72%**	**2,65%**	**+7 b.p.***
Cost/Income ratio	**50,0%**	**52,4%**	**-2,4 p.p.***	**47,5%**	**49,3%**	**-1,8 p.p.***
Return on equity (ROE)	**11,9%**	**14,0%**	**-2,1 p.p.***	**9,1%**	**14,3%**	**-5,2 p.p.***

* b.p. = basis points, 100 b.p. = 1 percentage point (1%)

Table 6

Geographical Sector Analysis of Results and Other Financial Information												
€ mn	Cyprus			Greece			Russia			Other countries		
	±%	2010	2009	±%	2010	2009	±%	2010	2009	±%	2010	2009
Net interest income	+22%	523	428	+18%	310	263	+66%	119	72	+4%	89	85
Net fee and commission income	+4%	127	123	-7%	51	55	-26%	41	55	+18%	12	10
Foreign exchange income and net gains from financial instruments	-13%	76	87	+126%	22	10	-46%	9	18	+151%	3	1
Insurance income net of insurance claims	-9%	48	52	+10%	11	10	--	--	--	--	--	--
Other income	-34%	5	8	-56%	1	2	-75%	2	6	-	1	1
Total income	**+12%**	**779**	**698**	**+16%**	**395**	**340**	**+14%**	**171**	**151**	**+7%**	**105**	**97**
Personnel expenses	+0%	225	224	+3%	113	110	+14%	63	55	+16%	29	25
Other operating expenses	+21%	117	97	+2%	88	85	+15%	62	55	+17%	28	23
Total expenses	**+7%**	**342**	**321**	**+3%**	**201**	**195**	**+14%**	**125**	**110**	**+17%**	**57**	**48**
Profit before provisions	**+16%**	**437**	**377**	**+34%**	**194**	**145**	**+12%**	**46**	**41**	**-2%**	**48**	**49**
Contribution		60%	*62%*		*27%*	*24%*		*6%*	*7%*		*7%*	*7%*
Provisions for impairment of loans and advances	+85%	145	78	+54%	184	120	-11%	25	28	-7%	21	22
Share of (loss)/profit of associates		(2)	1	--	--	--	--	--	--	--	--	--
Profit before tax	**-3%**	**290**	**300**	**-61%**	**10**	**25**	**+61%**	**21**	**13**	**+1%**	**27**	**27**
Contribution		83%	*82%*		*3%*	*7%*		*6%*	*4%*		8%	7%
Taxation	+193%	39	13	-107%	(1)	22	+134%	4	2	-33%	4	6
Non - controlling interests (loss/(profit))		5	(5)	--	--	--	-	(1)	(4)	-	0	0
Profit after tax	**-9%**	**256**	**282**	**+268%**	**11**	**3**	**+116%**	**16**	**7**	**+12%**	**23**	**21**
Contribution		*84%*	*90%*		*4%*	*1%*		*5%*	*2%*		*7%*	*7%*
Number of staff	**-12**	**3.556**	**3.568**	**--**	**3.148**	**3.148**	**-154**	**4.343**	**4.497**	**+48**	**962**	**914**
Number of branches	**--**	**143**	**143**	**+19**	**185**	**166**	**-5**	**211**	**216**	**+12**	**56**	**44**
Net interest margin (NIM)	**+14 b.p.**	**2,12%**	**1,98%**	**+29 b.p.**	**2,23%**	**1,94%**	**+154 b.p.**	**5,85%**	**4,31%**	**-24 b.p**	**2,56%**	**2,80%**
Cost/Income Ratio	**-2,0 p.p.**	**44,0%**	**46,0%**	**-6,6 p.p.**	**50,8%**	**57,4%**	**+0,4 p.p.**	**73,3%**	**72,9%**	**+4,3 p.p.**	**53,7%**	**49,4%**
Return on equity (ROE)	**-3,6 p.p.**	**22,8%**	**26,4%**	**+1,1 p.p.**	**1,6%**	**0,5%**	**+3,3 p.p.**	**9,4%**	**6,1%**	**-0,3 p.p.**	**12,9%**	**13,2%**

* b.p. = basis points, 100 b.p. = 1 percentage point (1%)

Table 7

Balance Sheet Overview			
In € mn	**±%**	**31.12.2010**	**31.12.2009**
Cash and balances with central banks	+115%	2.242	1.044
Placements with banks and reverse repurchase agreements	-11%	5.385	6.068
Debt securities, Treasury bills and equity investments	+8%	5.346	4.928
Net loans and advances to customers	+8%	27.725	25.636
Other assets	+12%	1.940	1.735
Total assets	**+8%**	**42.638**	**39.411**
Amounts due to banks and repurchase agreements	-20%	4.620	5.786
Customer deposits	+15%	32.953	28.585
Debt securities in issue	-84%	84	519
Other liabilities	+12%	1.222	1.089
Subordinated loan stock	-2%	931	947
Non-controlling interests	+46%	91	62
Equity attributable to the owners of the Company	**+13%**	**2.737**	**2.423**

Notes:

1. All geographical sector analyses are shown following restatements made to bring each sector's capital to the same percentage level of the sector's risk weighted assets.

2. The Consolidated Financial Statements for the Group for the year ended 31 December 2010, are available at the Bank of Cyprus Public Company Ltd Registered Office and on the Group's website, as follows:

   - Registered Office: 51 Stassinos Street, Ayia Paraskevi, Strovolos,
     P.O. Box 24884, 1398 Nicosia, Cyprus
     Telephone: +357 22 122128, Fax: +357 22 378422
   - Website: **www.bankofcyprus.com** (Inv. Relations/Financial Information)

3. The detailed presentation of the financial results for the financial year 2010 has been posted on the Group's website **www.bankofcyprus.com** (Inv. Relations/Presentations)